

## 2008 Schedule L (Form 990 or 990-EZ) Instructions

### Transactions with Interested Persons

Section references are to the Internal Revenue Code unless otherwise noted.

### General Instructions

#### Purpose of Schedule

Schedule L (Form 990 or 990-EZ) is used by an organization that files Form 990 or Form 990-EZ to provide information on certain financial transactions or arrangements between the organization and disqualified persons under section 4958 or other interested persons. Schedule L is also used to determine whether a member of the organization's **governing body** is an independent member for purposes of Form 990, Part VI, line 1b.

#### Who Must File

The following chart sets forth which organizations must complete all or a part of Schedule L and attach Schedule L to Form 990 or Form 990-EZ.

Type of filer:	Answering "Yes" to:	Must file:
501(c)(3) or (4) organization	Form 990, Part IV, line 25a or 25b (regarding <b>excess benefit transactions</b> )	Schedule L, Part I
501(c)(3) or (4) organization	Form 990-EZ, Part V, line 40b (regarding excess benefit transactions)	Schedule L, Part I
All organizations	Form 990, Part IV, line 26 (regarding loans)	Schedule L, Part II
All organizations	Form 990-EZ, Part V, line 38a (regarding loans)	Schedule L, Part II
All organizations	Form 990, Part IV, line 27 (regarding grants)	Schedule L, Part III
All organizations	Form 990, Part IV, line 28a, 28b, or 28c (regarding business transactions)	Schedule L, Part IV

**Supplemental information.** Use Schedule O if the organization needs additional space to explain a transaction or to provide the detailed information required by Schedule L.

### Specific Instructions

For Parts I, II and III, report all transactions regardless of amount. Part IV instructions provide individual and aggregate reporting thresholds below which reporting is not required with respect to an interested person. Parts III and IV contain separate **reasonable effort** instructions which organizations may rely on to satisfy reporting requirements for those Parts.

There is a separate definition of interested person for each Part of the Schedule, so a person who is an interested person for one Part may not be an interested person for other Parts of the Schedule. Each reportable transaction is to be reported in only one Part of Schedule L, as described below.

## Part I Excess Benefit Transactions

(To be completed by section 501(c)(3) and (c)(4) organizations.)

**Line 1.** For each **excess benefit transaction** involving an organization described in section 501(c)(3) or 501(c)(4), regardless of amount:

- Identify the **disqualified person(s)** that received an excess benefit in the transaction;
- Identify the organization manager(s), if any, that participated in the transaction, knowing that it was an **excess benefit transaction**;
- Describe the transaction; and
- State whether the transaction has been corrected.

**Excess benefit transaction.** An **excess benefit transaction** is a transaction in which an **applicable tax-exempt organization** directly or indirectly provides to or for the use of a disqualified person an economic benefit the value of which exceeds the value of the consideration received by the organization for providing such benefit. Applicable tax-exempt organizations are generally limited to organizations which (without regard to any excess benefit) are 501(c)(3) public charities or 501(c)(4) organizations, or organizations that had such status at any time during the 5-year period ending on the date of the excess benefit transaction.

Section 501(c)(3) and 501(c)(4) organizations should refer to the instructions for Form 990 Part IV, line 25 (or Form 990-EZ Part V, line 40b) before completing Schedule L, Part I. For more information on excess benefit transactions and section 4958, see Appendix G and Publication 557.

**Line 2.** Enter the amount of taxes imposed under section 4958 on organization managers and/or disqualified persons, whether or not assessed by the IRS, unless abated. Form 4720 must be filed to report and pay the tax on excess benefit transactions.

## Part II Loans to and from Interested Persons

Report details on loans, including salary advances and other advances and receivables (referred to collectively as “loans”), as described in Form 990, Part IV, line 26 or Form 990-EZ, Part V, line 38a. Report only loans between the organization and interested persons that are outstanding as of the end of the organization’s **tax year**. Report each loan separately and regardless of amount.

In addition to loans originally made between the organization and an interested person, report also loans originally between the organization and a third party or between an interested person and a third party that were transferred so as to become a debt outstanding between the organization and an interested person.

**Interested persons.** For Form 990 filers, interested persons for purposes of Part II are as follows:

- Current or former **officers, directors, trustees, key employees**, and five **highest compensated employees** listed in Form 990 Part VII, Section A are interested persons for all organizations.
- For organizations described in section 501(c)(3) or (4), **disqualified persons** as described in section 4958(f)(1) are also interested persons.

- For organizations described in section 509(a)(3), disqualified persons as described in section 4958(c)(3)(B) are also interested persons.

For Form 990-EZ filers, interested persons for purposes of Part II are current officers, directors, trustees, and key employees listed in Form 990-EZ, Part IV.

**Exceptions.** Do not report the following in Part II:

- **excess benefit transactions** reported in Schedule L, Part I
- advances under an **accountable plan** as described in the Schedule J, Part II instructions
- pledges receivable that would qualify as charitable contributions when paid
- accrued but unpaid **compensation** owed by the organization
- loans from a credit union made to an interested person on the same terms as offered to other members of the credit union
- receivables outstanding that were created in the ordinary course of the organization's business on the same terms as offered to the public (such as receivables for medical services provided by a **hospital** to an officer of the hospital)

**Column (a).** Identify the interested person that was the debtor or creditor on the loan. Also, state the organization's purpose for engaging in the transaction (e.g., "compensation package").

**Column (b).** Check either "to" or "from," whichever is applicable.

**Column (c).** State the original dollar amount owed (the loan principal).

**Column (d).** State the balance due as of the end of the organization's **tax year**, including outstanding principal, accrued interest, and any applicable penalties and collection costs. For Form 990 filers, the sum total indicated in column (d) must equal the total of Form 990, Part X (Balance Sheet), lines 5 and 6, column (B) (for amounts owed to the organization), and line 22, column (B) (for amounts owed by the organization).

**Column (e).** Answer "Yes" if any payment by the debtor was past due as of the end of the organization's **tax year**, or if the debtor otherwise is in default under the terms and conditions of the loan.

**Column (f).** State whether the organization's governing body (or a committee of the governing body) approved the loan transaction.

**Column (g).** State whether the loan is evidenced by a promissory note or other written agreement signed by the debtor.

### **Part III Grants or Assistance Benefiting Interested Persons**

Report each grant or other assistance (including provision of goods, services, or use of facilities), regardless of amount, provided by the organization to any interested person at any time during the organization's **tax year**. Examples of grants are scholarships, fellowships, internships, prizes, and awards. A grant includes the gift portion of a part-sale, part-gift transaction.

**TIP:** See the **reasonable effort** instruction, below, applicable to Part III.

**Interested person.** For purposes of Part III, an “interested person” means a current or former officer, director, trustee, or key employee listed in Form 990, Part VII, Section A; a substantial contributor; or a related person.

For purposes of Schedule L, Part III, a “substantial contributor” is a person that contributed during the organization’s **tax year** at least \$5,000 and is required to be reported by name in Schedule B, Schedule of Contributors, for the organization’s tax year. Thus, organizations not required to file Schedule B are not required to report transactions with substantial contributors and their related persons in Schedule L, Part III.

A “related person,” in turn, means:

- a member of the organization’s grant selection committee,
- a **family member** of any of the organization’s current or former **officers, directors, trustees, or key employees** listed in Form 990, Part VII, Section A, of substantial contributors, or of members of the organization’s grant selection committee,
- a 35% controlled entity (as defined in section 4958(f)(3)) of any of the organization’s current or former officers, directors, trustees, or key employees listed in Form 990, Part VII, Section A; of a substantial contributor; or of a member of the organization’s selection committee, or
- an **employee** (or child of an employee) of a substantial contributor or of a 35% controlled entity of a substantial contributor, but only if the employee (or child of an employee) received the grant or assistance by the direction or advice of the substantial contributor or 35% controlled entity, or pursuant to a program funded by the substantial contributor that was intended primarily to benefit such employees (or their children).

**Exceptions.** Do not report the following in Part III:

- **excess benefit transactions** reported in Schedule L, Part I
- loans reported (or not required to be reported) in Schedule L, Part II
- business transactions that do not contain any gift element and that are engaged in to serve the direct and immediate needs of the organization, such as payment of **compensation** (including taxable and nontaxable fringe benefits treated as compensation) to an **employee** or consultant in exchange for services of comparable value. Some such transactions may be reportable in Schedule L, Part IV.
- compensation to a person listed in Form 990, Part VII, Section A (including taxable and nontaxable fringe benefits treated as compensation)
- grants to employees (and their children) of a substantial contributor or 35% controlled entity of a substantial contributor, awarded on an objective and nondiscriminatory basis based on pre-established criteria and review by a selection committee, as described in Regulations section 53.4945-4(b).
- grants or assistance provided to an interested person as a member of the charitable class or other class (such as a member of a section 501(c)(5), (c)(6), or (c)(7) organization) that the organization intends to benefit in furtherance of its exempt purpose, if provided on similar terms as provided to other members of the class, such as short-term disaster relief or trauma counseling. However, grants for travel, study, or other similar purposes (such as to achieve a specific objective, produce a report or other similar product, or improve or enhance a literary, artistic, musical, scientific, teaching, or other similar capacity, skill, or talent of the grantee) like those described in section 4945(d)(3) are not excluded from reporting under this exception.

**Column (a).** Enter the name of the interested person that benefited from the grant or assistance. If the person has status as an interested person only because the person is a substantial contributor, a **family member** of a substantial contributor, a 35% controlled entity of a substantial contributor, or an **employee** of a substantial contributor or 35% controlled entity of a substantial contributor, then enter the term “substantial contributor” or “related to substantial contributor” (as the case may be) instead of the interested person’s name, in order to protect the confidentiality of the substantial contributor.

**Column (b).** Describe the relationship between the interested person that benefited from the grant or assistance and the organization, such as “spouse of Director John Smith.” If “substantial contributor” was entered in column (a), enter “substantial contributor” here as well. If “related to substantial contributor” was entered in column (a), then describe the relationship without referring to specific names, for example: “child of employee of 35% controlled entity of substantial contributor.”

If an interested person has interested person status other than by being a substantial contributor or related to a substantial contributor, then make no reference to the substantial contributor status. For example, if grantee Jane Smith is both a substantial contributor and the spouse of Director John Smith, then she must be listed by name in column (a), and column (b) must state “spouse of Director John Smith” or words to similar effect.

**Column (c).** State the total dollar amount of grants provided to the interested person during the organization’s **tax year**. Also describe the type of assistance and estimate its value.

**Reasonable effort.** The organization is not required to provide information about a grant or assistance to an interested person if it is unable to secure the information regarding interested person status after making a **reasonable effort** to obtain it. An example of a reasonable effort for Part III is for the organization to distribute a questionnaire annually to each current or former **officer, director, trustee, and key employee** listed in Form 990, Part VII, Section A, and each member of a grant selection committee that includes the name, title, date, and signature of each person reporting information and contains the pertinent instructions and definitions for Schedule L, Part III. The organization is not expected to distribute such a questionnaire to a substantial contributor or a related person to a substantial contributor, except (1) where the substantial contributor or such related person advises the organization as to the specific recipients of grants or assistance, or (2) with respect to programs of the organization intended primarily to benefit **employees** (or their children) of the substantial contributor or their 35% controlled entities.

Example. A substantial contributor to the organization states that he would like Mr. X and Ms. Y to be beneficiaries of a grant. The organization inquires of the substantial contributor whether Mr. X or Ms. Y are interested persons with respect to the organization because of a family or business relationship they have with the substantial contributor (using the pertinent instructions and definitions), and the substantial contributor replies in writing that they are not. Whether they actually are interested persons or not, the organization has made a reasonable effort in this situation.

#### **Part IV Business Transactions Involving Interested Persons**

Report in Part IV business transactions for which payments were made during the organization’s **tax year** between the organization and an interested person, if such payments exceeded the reporting thresholds described below, and regardless of when the transaction was entered into by the parties. In general, an organization must report in Part IV with respect to an interested person if: (1) all payments during the year between the organization and the

interested person exceeded \$100,000; (2) all payments during the year from a single transaction between such parties exceeded the greater of \$10,000 or 1% of the filing organization's total revenues; or (3) **compensation** payments by the organization paid to a **family member** of certain persons exceeded \$10,000.

See the reasonable effort instruction, below, applicable to Part IV. Special rules permit individual or aggregate transaction reporting.

**Business transactions.** Business transactions include but are not limited to contracts of sale, lease, license, and performance of services, whether initiated during the organization's **tax year** or ongoing from a prior year. Business transactions also include **joint ventures**, whether new or ongoing, in which either the profits or capital interest of the organization and of the interested person each exceeds 10%. The organization's charging of membership dues to its **officers**, **directors**, etc. are not considered business transactions for purposes of Part IV.

**Interested persons.** An interested person for purposes of Schedule L, Part IV is a current or former **officer**, **director**, **trustee**, or **key employee** listed in Form 990, Part VII, Section A, or any of the following:

- A **family member** of a current or former officer, director, trustee, or key employee listed in Form 990, Part VII, Section A
- An entity more than 35% owned, directly or indirectly, individually or collectively, by (1) one or more current or former officers, directors, trustees, or key employees listed in Form 990, Part VII, Section A, and/or (2) their family members
- An entity (other than a tax-exempt organization under section 501(c)) of which a current or former officer, director, trustee, or key employee listed in Form 990, Part VII, Section A was serving at the time of the transaction as (1) an officer, (2) a director, (3) a trustee, (4) a key employee, (5) a partner or member with an ownership interest in excess of 5% if the entity is treated as a partnership, or (6) a shareholder with an ownership interest in excess of 5% if the entity is a professional corporation

**Certain management company transactions with former officers, etc.** A business transaction reportable in Schedule L, Part IV also includes a transaction between the organization and a **management company** of which a former **officer**, **director**, **trustee**, or **key employee** of the organization (within the last five **tax years**, whether or not listed in Form 990, Part VII, Section A) is a direct or indirect 35% owner, or an officer, director, trustee, or key employee.

**Ownership.** Ownership is measured by stock ownership (voting power or value, whichever greater) of a corporation, profits or capital interest (whichever greater) in a partnership or limited liability company, beneficial interest in a trust, or control of a nonprofit organization. Ownership includes indirect ownership (e.g., ownership in an entity that has ownership in the entity doing business with the organization); there may be ownership through multiple tiers of entities. The constructive ownership rules of section 267(c) apply for this purpose.

**Reporting thresholds.** In reporting transactions in Part IV, the organization is not required to report transactions with an individual or organization for a dollar amount that did not exceed the greater of \$10,000 or 1% of the organization's total revenue for the organization's **tax year** (the amount reported in Form 990, Part VIII, line 12, column (A)), except in either of the following cases:

- (1) total payments for all transactions between the parties during the organization's tax year exceeded \$100,000 (in such case, report all transactions between the parties regardless of the individual amounts of such individual transactions)
- (2) the transaction was the organization's payment of **compensation** to a **family member** of a current **officer, director, trustee, or key employee** of the organization (in such case, payment of **reportable compensation** must be reported if in excess of \$10,000 for the organization's tax year).

Aggregate all payments during the tax year between the parties under the same contract or transaction. For instance, if a director of the organization is a greater than 5% partner of a law firm (or greater than 5% shareholder if the law firm is a professional corporation) and the organization pays the law firm an amount of more than 1% of the organization's total revenue during the organization's tax year under a contract for a particular case or legal matter (if the amount exceeds \$10,000), treat all payments under such arrangement as a single reportable business transaction.

**Aggregate reporting.** The organization may aggregate multiple individual transactions between the same parties, or list them separately. If aggregation is chosen, report the aggregate amount in column (c) and describe the various types of transactions (e.g., "consulting," "rental of real property") in column (d).

**Exceptions.** Do not report the following in Part IV:

- **excess benefit transactions** reported in Schedule L, Part I;
- loans reported (or not required to be reported) in Schedule L, Part II;
- grants and other assistance reported (or not required to be reported) in Schedule L, Part III (however, this exception does not apply to transactions covered by the business transaction exception described in Part III instructions, above; such transactions may need to be reported in Part IV); or
- **compensation** reported in Form 990, Part VII, Section A.

#### **Examples:**

Example (1). T, a family member of an officer of the organization, serves as an employee of the organization and receives during the organization's tax year compensation of \$15,000, which is not more than 1% of the organization's total revenue. The organization is required to report T's compensation as a business transaction in Schedule L, Part IV because T's compensation to a family member of an officer exceeds \$10,000, unless T's compensation were already reported in Form 990, Part VII.

Example (2). X, the child of a current director listed in Form 990, Part VII, Section A, is a first-year associate at a law partnership that the organization pays \$150,000 during the organization's tax year. Given that X has no ownership interest in the law firm and is not an officer, director, trustee, or key employee of the firm, the organization is not required to report this business transaction in spite of X's employment relationship to the law firm.

Example (3). Same facts as in Example (2), except that X is a partner of the law firm and has an ownership interest in the law firm of 5.25% of the profits. The organization must report the business transaction due to X's greater than 5% ownership interest in the law firm and the dollar amount in excess of the \$100,000 aggregate threshold.

Example (4). Same facts as in Example (3), except that the law firm entered into the transaction with the organization before X's parent became a director of the organization. The organization must report all payments made during its tax year to the law firm for the transaction.

Example (5). Same facts as in Example (3), except that X is the child of a former director listed in Form 990, Part VII, Section A. The organization is required to report the business transaction, as family members of former directors listed in Part VII are interested persons.

Example (6). Same facts as in Example (3), except that the organization pays \$75,000 in total during the organization's tax year for 15 separate transactions to collect debts owed to the organization. None of the transactions involves payments to the law partnership in excess of \$10,000. The organization is not required in this instance to report the business transaction, because the dollar amounts do not exceed either the \$10,000 transaction threshold or the \$100,000 aggregate threshold.

Example (7). Same facts as in Example (6), except that the organization pays \$105,000 instead of \$75,000. Because the aggregate payments for the business transactions exceed \$100,000, the organization must report all the business transactions. The organization may report the transactions on an aggregate basis or list them separately.

**Column (a).** Enter the name of the interested person involved in the direct or indirect business relationship with the organization.

**Column (b).** State the relationship between the interested person and the organization, such as, for example:

- **key employee** of the organization
- **family member** of Freda Jones, former director
- entity more than 35% owned by (1) Freda Jones, former director, and (2) Lisa Lee, President
- partnership more than 5% owned by Freda Jones, former director

**Column (c).** The dollar amount of the transaction is the cash and/or fair market value of other assets and services provided by the organization during the **tax year**, net of reimbursement of expenses.

**Column (d).** Describe the transaction(s) by type, such as employment or **independent contractor** arrangement, rental of property, or sale of assets.

**Column (e).** State "Yes" if all or part of the consideration paid by the organization is based on a percentage of revenues of the organization. For instance, state "Yes" if a management fee is based on a percentage of revenues, or a legal fee owed to outside attorneys by a public interest law firm is a percentage of the amount collected.

**Reasonable effort.** The organization is not required to provide information about a business transaction with an interested person if it is unable to secure the information regarding interested person status after making a **reasonable effort** to obtain it. An example of a reasonable effort for Part IV is for the organization to distribute a questionnaire annually to each current or former **officer, director, trustee, and key employee** listed in Form 990, Part VII, Section A that includes the name, title, date, and signature of each person reporting information and contains the pertinent instructions and definitions for Schedule L, Part III. The organization



is not required to distribute such a questionnaire to organizations or individuals with which it does business , but who are not current or former officers, directors, trustees, or key employees of the organization, in order to have made a reasonable effort for this purpose.

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